

Missing Middle Work Group Session 3 Meeting Summary

Santa Clara County Planning Collaborative & 21 Elements

[Slides and meeting recording available here.](#)

During this work group session attendees explored tools for creating a missing middle strategy, and heard from a panel of local developers about strategies for building middle housing types. Collaborative staff gave a detailed overview of specific reports and tools available to staff in Santa Clara and San Mateo Counties, along with lessons learned from regional work. A panel of local developers shared insights on the current housing market, discussed the major barriers to building middle housing, and suggested how cities can partner with developers and property owners to encourage new middle housing.

Regional Tools & Lessons

Collaborative staff reviewed tools available through the Association of Bay Area Governments from a regionwide 2022 Missing Middle Work Group. See “Resources From This Work Group Session” for a list of data tools, reports, and other materials.

Key takeaways from this regional work include:

- Zoned densities are often too low to achieve desired outcomes.
- Cities need to pay close attention to zoning standards (setbacks, open space requirements, lot size limits, parking...).
- Rental housing and for-sale housing perform differently in terms of economics (as well as community support).
- For homeownership types, consider not just affordability but also attainability (people spending more than 30% of income on housing).
- There is tension between “making it fit” and “making it feasible.”
- There is sometimes magical thinking about zoning (zone it and they will come).

At a high level, staff should keep in mind that **middle housing types need to be:**

- **Possible:** Physically possible given common site constraints.
- **Profitable:** The financials need to work for both homebuyers and developers.
- **Probable:** As easy (or easier) to permit, build, finance, and rent/sell as other options, with equal or greater return on investment.

Developer Panel

Collaborative staff facilitated a panel discussion with three local developers:

- Adam Mayberry, Mayberry Workshop, focusing on small infill development and accessory dwelling units (ADUs).
- Jia Li, AlphaX RE Capital, focusing on missing middle projects ranging from ADUs and SB 9 lot splits to larger mixed-use and master-planned communities.
- Jim Sullivan, Sullivan Land Development, focusing on smaller scale middle housing types in the South Bay.

Key Takeaways

- Middle housing is challenging to make financially feasible. Feasibility often requires either creating large projects with a diversity of housing types or supporting small property owners on infill development projects. Both approaches have unique challenges for developers.
- Work closely with developers and allow for creativity and flexibility.
- Create clear, accessible guidance for zoning regulations and state law implementation.
- Streamline processes and reduces fees where possible.

Discussion Summary

What housing types do the panelists work on, and what is the market interest like?

Adam Mayberry: Developers are interested in creating housing that doesn't just meet site requirements but also creates value for homebuyers. Many homeowners also become small-scale developers through ADUs, a housing type which can be a key piece of creating new middle housing.

Jia Li: Bridging the gap for middle housing requires a broad range of housing types, from small units with ADUs up through large, multi-family projects, including condos. Developers are also paying close attention to new state laws that can support middle housing and exploring how to lean into implementation.

Jim Sullivan: Developments of 18-25 units per acre is a sweet spot for financial feasibility, and this lends itself easily to creating townhomes. Townhomes are towards the bottom of the density scale, but in the current market they pencil best for developers. Smaller property owners in particular want to build something that will sell quickly.

Some cities are looking for more townhomes, and some are looking to encourage denser housing types. What are the market dynamics that push developers to townhomes over higher density forms of housing?

Jim Sullivan: Developers and property owners have room for a lot of creativity with ADUs. They're a great way to increase density alongside both new and existing housing and should be encouraged and incentivized as a key middle housing. Larger developments of 30 or more units with a diversity of housing types are also a good opportunity for increased density. Townhomes can be built in one part of the project to ensure financial feasibility, and denser building types can be placed adjacently.

Jia Li: AlphaX recently did a similar project with a large development, where some of the units were condos and some were townhomes that made the development financially feasible. Higher densities are challenging to make pencil with today's construction costs and few lending options. Lenders prefer to finance townhomes over denser housing types because they're easier to liquidate.

What are barriers and significant challenges to missing middle housing?

Adam Mayberry: Middle housing requires three key things: zoning that supports middle housing, middle-sized companies that can work on mid-size projects of just a few units, and mid-size units that are naturally affordable. Currently developers are not trying to build these kinds of smaller starter homes because the available sites are too small and the financing doesn't pencil.

Large developers dictate the market because they produce the majority of new units, but small and mid-size developers struggle to navigate site constraints and financing for smaller projects that can produce middle housing types. Cities can help by streamlining zoning regulations and the application process, and being flexible where possible. San José's ADU efforts are a good example of a city using new state law to streamline zoning, while going above and beyond with process support to make application approvals easier and faster.

Jia Li: There are a few things that cities can do to help reduce barriers to middle housing: process streamlining, flexible zoning regulations, clear guidance, and fee reductions.

- Cities can implement programs for AB 1033 and SB 684 with clear guidance for developers.
- In some residential zones the site development approvals process can take 7 to 12 months. Anywhere that the city can revise and streamline zoning will help with this.
- SB 9: Cities are approaching implementation differently from each other, which is challenging for developers. The more flexibility cities can have in working with developers, the easier development will be.
- Cities that are trying to create more housing for the local workforce, especially local service providers, can provide fee reductions to help developers make sure these projects are feasible.

Jim Sullivan: Staffing seems like a major concern, with cities implementing hiring freezes and cutting budgets. Development timelines and housing costs are impacted when cities can't allocate enough staff time.

What else can cities do to make missing middle housing types more possible?

Adam Mayberry: Clear guidance helps developers figure out what can be built more quickly. Create objective standards checklists that use accessible language. Additionally, infill projects generally rely on small property owners to make a project happen, so zoning that makes it easier for homeowners to densify their lots with plexes and ADUs creates a new pipeline for middle housing and diversifies neighborhoods.

Jia Li: Everyone wants to see more middle housing, so as much as cities can work with developers, especially on state law implementation, the more developers can build housing that serves the community.

Jim Sullivan: Flexibility is valuable. For example, if one development can't accommodate the required density, can the missing units be built elsewhere in the city? Cities should work with developers to be creative about how to make middle housing possible given the constraints that everyone is facing.

Why do property owners seem to prefer lower density development?

Summary from all panelists: The economics of development is challenging at this point in time. Debt is expensive, lenders are hesitant, closing costs are high, and timelines are long. In the current housing market lower density housing sells faster and at a more profitable rate, making it more appealing for everyone from small property owners to larger developers.

Resources From This Work Group Session

- [“Making Middle Housing Work”](#): Regional work group slides and recordings.
- [Middle Housing Feasibility Tool](#): Password: MiddleInteractive
- [Bay Area Middle Housing Market Report](#)
- ["Zoning for Middle Housing" Guidebook](#)
- ["Making Middle Housing Affordable" Guidebook](#)
- [Middle Housing Zoning Changes and RHNA](#)
- [Middle Housing Mythbusters](#)
- [“What is Middle Housing?”](#): Customizable template slide deck.